Cancorp

Iso Mines Limited

Annual Report 1975

To the Shareholders:

It is a pleasure to present the annual report for the year ending September 30, 1975.

Iso's most important asset is its 865,306 shareholding (23%) in Afton Mines Ltd., and our main activity during the year involved studies and negotiations directed towards development of Afton's copper orebody near Kamloops, British Columbia. These were concluded successfully, and the decision to proceed was announced in October, 1975.

The scope of the Afton project has been expanded to include western Canada's first copper smelter as well as a conventional mining and milling operation. The smelter will employ the Top Blown Rotary Converter (TBRC) process, and the combined operation will have a capacity of 25,000 tons per year of copper metal.

Increased secondary processing of concentrates within Canada has long been both a national and provincial policy and considerable efforts were devoted to try to accommodate this objective. A key factor in our ability to proceed with the smelter was an agreement with the Province of British Columbia under which Afton will receive, as an incentive, 2¢ per pound of copper produced during its first four years of operation.

The capital cost of the complex is expected to be $80,000,000. Financing arrangements include $75,000,000 in term bank loans to Afton, a $15,000,000 line of credit from two British copper customers and completion and deficiency guarantees by both Iso and Teck Corporation. As part of the financing arrangement it has been necessary for Teck to support Iso's guarantees. In consideration of this undertaking by Teck, Iso agreed, subsequent to the year end, to pay Teck a fee of $750,000, which will be satisfied by the issuance of 600,000 treasury shares.

Contracts for the detailed engineering and for key items of equipment were let immediately after the decision to proceed was announced. Assuming that all necessary permits have been obtained or are being processed expeditiously, construction is expected to start in March. Barring unforeseen delays, the mine and smelter should be in operation by the end of 1977.

Early in the fiscal year, in preparation for this project, Iso sold its 50% interest in the Magusi property and its shareholding in Mattagami Lake Mines to Noranda Mines Limited for $5,682,500. This reduced the company's loan position to $1,236,000 as of September 30, 1975.

In order that the company may be in a position to take advantage of further opportunities to improve its financial position, the directors have passed a special resolution providing for an increase in the authorized capital by 1,000,000 shares to 6,000,000 shares.

Iso did not become involved in any new exploration ventures during the year. However, there was some activity in Dumagami Mines Limited, in which Iso holds a 407,066 share minority interest. Feasibility studies on Dumagami's gold property near Val D'or, Quebec were begun and some milling equipment purchased. Construction has now been suspended with the recent drop in the price of gold to the $130 per ounce range, but the two principal shareholders are providing additional funds to continue exploration and development of the property.

Afton will be the second important new mine with which Iso has been associated, although in two quite different ways. Iso was a member of the Mattagami Syndicate that discovered the Mattagami orebody in northern Quebec, which evolved into one of Canada's most important mining companies. Mattagami now operates two mines in the 3,000 tons per day class as well as a zinc smelting and refining complex. Iso's role in Afton has been that of co-sponsor during the development stage and again the project involves a significant new mine, that will go beyond the mineral concentrate stage to smelting from its inception.

On behalf of the board

N.B. Keevil Jr.
President

February 4, 1976

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1975

ASSETS

	1975 $	1974 $
Current Assets		
Cash	1,090	3,028
Accounts receivable and prepaid charges	2,178	7,334
Marketable securities (note 1)	274,171	323,671
	277,439	334,033
Investments in and advances to associated and other companies (note 2)	9,947,251	9,915,868
Mineral Properties and Deferred Exploration and Administration Expenditures (note 3)	550,366	1,598,728
	10,775,056	11,848,629

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Iso Mines Limited and subsidiaries as at September 30, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Coopers & Lybrand

November 3, 1975

Chartered Accountants

LIABILITIES

	1975 $	1974 $
Current Liabilities		
Bank loan, secured (notes 1 and 2)	1,236,000	6,584,000
Accounts payable	40,973	132,085
	1,276,973	6,716,085

SHAREHOLDERS' EQUITY

	1975 $	1974 $
Capital Stock (note 4)		
Authorized —		
5,000,000 shares of no par value		
Issued and fully paid —		
3,663,033 shares	1,634,105	1,634,105
Retained Earnings	7,863,978	3,498,439
	9,498,083	5,132,544
	10,775,056	11,848,629

Signed on behalf of the Board

F. H. Wentey. Director

A. A. Armstrong Director

CONSOLIDATED STATEMENT OF EARNINGS
For The Year Ended September 30, 1975

	Year ended September 30, 1975 $	Nine months ended September 30, 1974 $
Income		
Dividends	27,990	290,313
Sundry	—	311
	27,990	290,624
Expenses		
General and administrative	113,188	68,033
Earnings (loss) from Operations	(85,198)	222,591
Mineral properties and deferred exploration expenditures written off	(268,744)	(186,029)
Gain on sale of mining claims	415,413	—
Amounts written off fixed assets	—	(19,385)
	146,669	(205,414)
Earnings Before Extraordinary Items	61,471	17,177
Extraordinary Items (note 7)		
Gain on sale of marketable securities	4,405,500	—
Gain on sale of investments	—	92,486
rite down of investments	(101,432)	—
	4,304,068	92,486
Net Earnings for the Period	4,365,539	109,663
Earnings per Share before Extraordinary Items	0.017	0.005
Earnings per Share after Extraordinary Items	1.19	0.03

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For The Year Ended September 30, 1975

	Year ended September 30, 1975 $	Nine months ended September 30, 1974 $
Balance — Beginning of Period	3,498,439	3,388,776
Net earnings for the period	4,365,539	109,663
Balance — End of Period	7,863,978	3,498,439

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For The Year Ended September 30, 1975

	Year ended September 30, 1975 $	Nine months ended September 30, 1974 $
Source of Funds		
Earnings from operations	—	222,591
Proceeds from sale of treasury shares	—	300,000
Gain from sale of marketable securities	4,405,500	—
Proceeds from sale of investments	33,906	101,429
Proceeds from sale of fixed assets	—	11,207
Proceeds from sale of mining claims	1,227,500	—
	5,666,906	635,227
Use of Funds		
Loss from operations	85,198	—
Investments in and advances to associated and other companies	166,722	459,924
Exploration expenditures	32,468	445,505
	284,388	905,429
Increase (Decrease) in Working Capital	5,382,518	(270,202)
Working Capital Deficiency — Beginning of Period	6,382,052	6,111,850
Working Capital Deficiency — End of Period	999,534	6,382,052

STATEMENT OF ACCOUNTING POLICIES
September 30, 1975

Outlined below are those policies considered particularly significant:

Principles of Consolidation

The consolidated financial statements include the accounts of the company's subsidiaries, Iso Explorations Ltd. and Iso Nevada Limited. Inter-company transactions and year-end account balances have been eliminated on consolidation.

The accounts of the U.S. subsidiary, Iso Nevada Limited, have been converted into Canadian dollars as follows:

(a) Deferred Expenditures — at the rates prevailing at the date incurred.

(b) Current Assets and Liabilities — at the rate prevailing at September 30, 1975.

(c) Expenses — at the average rate prevailing throughout the year.

Investments

Interest charges on money borrowed to finance major investment purchases are capitalized against the cost of the investment.

Mineral Properties and Deferred Exploration and Administration Expenditures

The amounts shown for mineral properties and deferred exploration expenditures represent costs to date less amounts written off and do not necessarily reflect present or future values. These amounts are written off at such time as the project is abandoned. Interest charges on funds borrowed to finance major projects are capitalized against that project.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended September 30, 1975

1. MARKETABLE SECURITIES

Marketable securities are stated at cost (market value — $399,130; 1974 — $4,770,812). Certain of the marketable securities are pledged as collateral security for the bank loans.

2. INVESTMENTS IN AND ADVANCES TO ASSOCIATED AND OTHER COMPANIES

	September 30, 1975		September 30, 1974	
	Book value $	Market value $	Book value $	Market value $
Quoted shares	9,639,140	4,876,199	7,384,738	2,028,000
Unquoted shares	307,770		414,744	
Advances	341		17,788	
Afton feasibility study	—		2,098,598	
	9,947,251		9,915,868	

The investments in associated and other companies are not temporary investments. The total market value of all shares included in investments may not necessarily reflect the present or ultimate value of these holdings which may be more or less than indicated by cost or market quotations.

Certain of the investments are pledged as security for the bank loans.

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION AND ADMINISTRATION EXPENDITURES

Mineral properties and deferred exploration and administration expenditures are carried at cost, less amounts written off, and consist of the following:

	$
Arizona	294,659
Macamic	125
Twin Bridges — Montana	190,759
Copper Canyon	14,127
Spring Valley Flourspar	36,822
Deferred administration expenses	13,874
	550,366

The Company sold its interest in the Magusi Project claims to Noranda for $1,227,500 cash plus a 3.75% carried interest in the six main claims containing the known orebody and a 12½% carried interest in the remaining claims. With respect to certain of the remaining claims the carried interest reduces to 8.3% after the Company has received $137,500 from these claims.

4. CAPITAL STOCK

There are options outstanding to a director on 20,000 shares of the Company's capital stock at a price of $1.97 per share which expire November 4, 1979.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid during the period to directors and senior officers of the company was $7,000 (1974 — $3,850).

6. INCOME TAXES

There are no income taxes payable for the year. The Company has accumulated deferred expenditures in the amount of approximately $3,000,000 which is available to reduce taxable income in future years.

7. EXTRAORDINARY ITEMS

During the year the Company sold to Noranda Mines Limited 330,000 shares of Mattagami Lake Mines Ltd. for $4,455,000 which resulted in a gain of $4,405,500.

8. SUBSEQUENT EVENT

Afton Mines Ltd. (N.P.L.) in which the Company has a 23% interest and Teck Corporation Limited a 43% interest, has announced commencement of construction of a mine, mill and smelter operation having an estimated capital cost of $80,000,000. The Company and Teck have arranged financing for Afton by way of a $75,000,000 term loan from a consortium of Canadian banks and a $15,000,000 line of credit from the purchasers of the production. The Company and Teck have jointly and severally provided a completion guarantee for the project. In addition, they have agreed to provide funds for repayment of the bank loan in the event that the cash flow of the Afton project is insufficient to meet scheduled repayments, up to a maximum of $25,000,000. There are provisions whereby the $25,000,000 commitment reduces as repayments of the bank loan are made.

The $15,000,000 line of credit from the customers may be drawn upon, if necessary, to satisfy the completion and deficiency guarantees. To the extent that this line of credit is utilized, the Company's and Teck's obligations are reduced.

The Company and Teck must provide initially a total of $10,000,000 of collateral to the banks and there is provision for additional collateral if more than $5,000,000 of the line of credit from the customers is utilized.

Teck has agreed with Iso to provide the initial $10,000,000 of collateral and, in the event Iso is unable to do so, provide additional collateral and/or provide any required funds pursuant to the arrangements with the banks.

For providing this accommodation Teck is to receive a guarantee fee of $750,000, these funds being provided by the issuing of 600,000 Iso Mines Ltd. treasury shares to Teck at price $1.25 per share.

DIRECTORS

N.B. Keevil Jr.
W.R. Bergey
R.A. Cranston
J.C. Frantz
G.C. McCartney
A.C. Nixon
J.H. Westell

OFFICERS

N.B. Keevil Jr., *President*
W.R. Bergey, *Vice-President, Exploration*
J.H. Westell, *Vice-President and Treasurer*
W.H. Maedel, *Secretary*
J.D. Munroe, *Assistant Secretary*
D.S. Brown, *Assistant Secretary*
W.J. Baird, *Assistant Treasurer*

HEAD OFFICE

Suite 4900, Box 49, Toronto-Dominion Centre,
Toronto, Ontario M5K 1E8

TRANSFER AGENTS AND REGISTRARS

Guaranty Trust Company of Canada

AUDITORS

Coopers & Lybrand

SOLICITORS

Lang, Michener, Cranston, Farquharson & Wright

ANNUAL MEETING

Saskatchewan Room, Royal York Hotel, Toronto, Ontario
Tuesday, March 23, 1976, 10:30 a.m. (Eastern Standard time)

PRINTED IN CANADA WMPL

ISO MINES LIMITED
and Subsidiaries

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

UNAUDITED

For the Six Months Ended March 31

	1975 $	1974 $
BALANCE — BEGINNING OF PERIOD	3,498,439	3,364,513
Net earnings for the period	4,802,056	76,613
BALANCE — END OF PERIOD	8,300,495	3,441,126

Approved on behalf of the Board,

Director

Director

ISO MINES LIMITED

INTERIM REPORT

Six Months Ended

March 31, 1975

4900 - Toronto-Dominion Centre
TORONTO, ONTARIO
M5K 1E8

ISO MINES LIMITED
and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

UNAUDITED

For the Six Months Ended March 31

	1975 $	1974 $
INCOME		
Dividends	23,440	177,215
EXPENSES		
General and administrative	61,398	54,667
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	(37,958)	122,548
EXTRAORDINARY ITEMS		
Write down of investments	—	(36,980)
Loss on sale of equipment	—	(8,955)
Gain on sale of investments	4,419,101	—
Gain on sale of mineral property	420,913	—
	4,840,014	(45,935)
NET EARNINGS FOR THE PERIOD	4,802,056	76,613
EARNINGS (LOSS) PER SHARE		
Before extraordinary items	(0.001)	0.03
After extraordinary items	1.31	0.02

ISO MINES LIMITED
and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

UNAUDITED

For the Six Months Ended March 31

	1975 $	1974 $
SOURCE OF FUNDS		
Earnings (loss) before extraordinary items	(37,958)	122,548
Proceeds from sale of marketable securities	4,405,500	—
Proceeds from sale of investments	16,176	—
Proceeds from sale of interest in joint mineral property — Magusi River	1,227,500	—
Proceeds from disposal of equipment	—	2,248
	5,611,218	124,796
USE OF FUNDS		
Investment in subsidiary company	—	200
Investments in and advances to associated and other companies	96,479	744,728
Deferred exploration expenditures	17,112	73,582
Purchase of fixed assets	—	702
	113,591	819,212
INCREASE (DECREASE) IN WORKING CAPITAL	5,497,627	(694,416)
WORKING CAPITAL DEFICIENCY — Beginning of Period	6,382,052	5,925,984
WORKING CAPITAL DEFICIENCY — End of Period	884,425	6,620,400